

subscription to telephone service must begin by recognizing the preferability, on economic grounds, of a rebalancing of telephone rates, supplemented with targeted subsidies, financed by competitively-neutral levies, over the present massive internal subsidization. The universal subsidy fund contemplated by the Telecommunications Act can most efficiently be used both to honor the entitlement of the incumbent local telephone companies to a fair opportunity to recover the costs, both sunk and ongoing, they actually incurred in fulfillment of their public utility obligations and to make competition at the local level feasible by distributing to successful competitors the amounts by which the basic service rates for the subscribers they succeed in attracting fall short of the forward-looking costs of the incumbents.

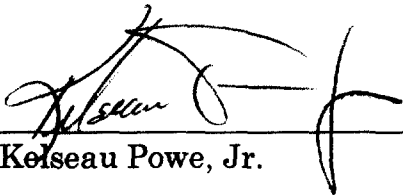
The distinctive feature of the U S West proposal is that under it the subsidies for the latter purpose would take the form of supplementing the up-front investment costs of the successful bidder for the right to serve any group of subscribers as carrier of last resort rather than the annual, levelized carrying and operating costs associated with those investments.

In the previous regime of franchised public utility monopoly, it was possible for the LECs to make the necessary investments, secure in the knowledge that they would be able to recover those costs over time. Neither the incumbent LECs nor their challengers would be able to do so henceforward, if they were expected to undertake the investments with their own resources but be at risk thereafter of having the supplemental subsidies taken away by competitors that had not incurred those costs.

The U S West proposal responds to the risk inherent in the new competitive environment, therefore, by relating the subsidy payments to initial investment outlays rather than to annual costs or revenue requirements. It envisions competition among LECs to qualify for those up-front subsidies and would confine subsidies thereafter, if any were required, to the recovery of operating expenses. Only such a subsidy program could, in a world in which competitors would thereafter be in a position to win subscribers away from whatever carrier incurred the costs of the initial investments, could provide the synchronization of cost incurrence and subsidy payments necessary to elicit the required investments, whether by incumbent telephone companies or their competitors.

CERTIFICATE OF SERVICE

I, Kelseau Powe, Jr., do hereby certify that on this 15th day of May, 1998, I have caused a copy of the foregoing **COMMENTS OF U S WEST COMMUNICATIONS, INC. ON PROPOSALS TO REVISE THE METHODOLOGY FOR DETERMINING UNIVERSAL SERVICE SUPPORT** to be served, via first class United States Mail, postage pre-paid, upon the persons listed on the attached service list.



Kelseau Powe, Jr.

*Served via hand delivery

***William E. Kennard**
Federal Communications Commission
Room 814
1919 M Street, N.W.
Washington, DC 20554

***Gloria Tristani**
Federal Communications Commission
Room 826
1919 M Street, N.W.
Washington, DC 20554

***Michael K. Powell**
Federal Communications Commission
Room 844
1919 M Street, N.W.
Washington, DC 20554

***Harold Furchtgott-Roth**
Federal Communications Commission
Room 802
1919 M Street, N.W.
Washington, DC 20554

***Susan P. Ness**
Federal Communications Commission
Room 832
1919 M Street, N.W.
Washington, DC 20554

***A. Richard Metzger, Jr.**
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, DC 20554

***Sheryl Todd**
Federal Communications Commission
Room 8611
2100 M Street, N.W.
Washington, DC 20554

***L. Charles Keller**
Federal Communications Commission
Room 8918
2100 M Street, N.W.
Washington, DC 20554

(9 copies)

***James Casserly**
Federal Communications Commission
Room 832
1919 M Street, N.W.
Washington, DC 20554

***Irene M. Flannery**
Federal Communications Commission
Room 8922
2100 M Street, N.W.
Washington, DC 20554

***Paul Gallant**
Federal Communications Commission
Room 826
1919 M Street, N.W.
Washington, DC 20554

***Kevin Martin**
Federal Communications Commission
Room 802
1919 M Street, N.W.
Washington, DC 20554

***International Transcription**
Services, Inc.
1231 20th Street, N.W.
Washington, DC 20036

Barry Payne
Indiana Office of the Consumer
Counsel
Room N501
100 North Senate Avenue
Indianapolis, IN 46204-2208

Laska Schoenfelder
Charles Bolle
Terry Norum
South Dakota Public Utilities
Commission
State Capitol
500 East Capitol Street
Pierre, SD 57501-5070
(3 copies)

Martha S. Hogerty
Public Counsel for the State
of Missouri
Room 250
Harry S. Truman Building
301 West High Street
POB 7800
Jefferson City, MO 65102

Lorraine Kenyon
Alaska Public Utilities Commission
Suite 400
1016 West 6th Avenue
Anchorage, AK 99501

Ann Dean
Maryland Public Service
Commission
16th Floor
6 Saint Paul Street
Baltimore, MD 21202-6806

Bridget Duff
Julia Johnson
Mark Long
Florida Public Service Commission
Gerald Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0866
(3 copies)

James B. Ramsey
National Association of Regulatory
Utility Commissioners
1101 Pennsylvania Avenue, N.W.
POB 684
Washington, DC 20444-0684

Sandra Makeeff
Iowa Utilities Board
5th Floor
Lucas State Office Building
Des Moines, IA 50319

Philip F. McClelland
Pennsylvania Office of
Consumer Advocate
5th Floor
55 Walnut Street
Forum Place
Harrisburg, PA 17101-1921

Brian Roberts
California Public Utilities
Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298

Patrick H. Wood III
Roland Curry
Public Utility Commission
of Texas
1701 North Congress Avenue
POB 13326
Austin, TX 78701
(2 copies)

Deonne Bruning
Nebraska Public Service
Commission
300 The Atrium
1200 N Street
POB 94927
Lincoln, NE 68509-4927

David Baker
Tiane Sommer
Georgia Public Service
Commission
244 Washington Street, S.W.
Atlanta, GA 30334-5701
(2 copies)

Jay C. Keithley
Sprint Corporation
11th Floor
1850 M Street, N.W.
Washington, DC 20036-5807

Sandra K. Williams
Sprint Corporation
POB 11315
Kansas City, MO 64112

Anthony M. Marquez
Colorado Public Utilities Commission
6th Floor
1525 Sherman Street
Denver, CO 80203

Bruce Schoonover
John Staurulakis, Inc.
6315 Seabrook Road
Seabrook, MD 20706

Joe D. Edge
Tina M. Pidgeon
Drinker, Biddle & Reath, LLP
Suite 900
901 15th Street, N.W.
Washington, DC 20005

PRTC

Brian Conboy
Thomas Jones
Jay Angelo
Willkie, Farr & Gallagher
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20036

TWCH

John F. Raposa
GTE Service Corporation
HQE03J27
600 Hidden Ridge
POB 152092
Irving, TX 75015-2092

Gail L. Polivy
GTE Service Corporation
Suite 1200
1850 M Street, N.W.
Washington, DC 20036

Paul A. Bullis
Maureen A. Scott
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

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